

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

REBUTTAL TESTIMONY
OF
SUSAN W. MAYO
ON BEHALF OF
UNITED STATES POSTAL SERVICE

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3 AUTOBIOGRAPHICAL SKETCH

4

5 My autobiographical sketch is contained in my direct testimony, USPS-T-39,
6 of this proceeding. This is my eighth appearance before the Commission.

1 **I. PURPOSE AND SCOPE**

2

3 The purpose of my testimony is to rebut the testimonies of the following
4 witnesses: Buc (CSA-T-1), Bentley (KE-T-1), and Collins (OCA-T-8). Witness
5 Buc proposes a lower fee and lower cost coverage for Bulk Parcel Return
6 Service (BPRS) than I proposed in my direct testimony (USPS-T-39) in this
7 proceeding. This testimony will show that BPRS is a special service with a high
8 value of service to its users. Consequently, I will demonstrate how witness Buc's
9 reasoning for likening BPRS characteristics to Standard Mail (A) characteristics
10 for purposes of cost coverage development is without merit. In rebutting the
11 testimony of witness Bentley, I will demonstrate how the KeySpan proposal does
12 not consider the moderate volume QBRM mailers who could take advantage of
13 my proposed QBRM quarterly fee and a lower per piece fee.

14 I am rebutting arguments concerning two of the special services discussed
15 in witness Collins' testimony – insurance and money orders. My testimony
16 shows how my proposed incremental fee was developed based on cost
17 information and why there is no basis for expanding the \$100 value level fee
18 increments. I will also demonstrate why the supposed fee anomaly between
19 insurance and registered mail should not be considered when recommending
20 fees as the two services are quite different in design. With regard to money
21 orders, I will show how the OCA proposal is not based on a fair comparison
22 between the proposed postal money order fees and the fees of competitors, and
23 how the OCA proposal does not take into consideration the total cost of

1 competitor's money orders when doing a price comparison. I will also
2 demonstrate the superior convenience of postal money orders and show why the
3 cost coverage should not be lowered.

4 Finally, I have provided errata to Domestic Mail Classification Schedule
5 (DMCS) language proposed in my direct testimony (USPS-T-39). I am also
6 suggesting several small DMCS changes to improve portions of the special
7 services section.

1 II. BULK PARCEL RETURN SERVICE (BPRS)

2

3 1. Comparison of Postal Service Proposal with CSA Proposal

4 Continuity Shippers Association (CSA) witness Buc (CSA-T-1) proposes an
5 alternative Bulk Parcel Return Service (BPRS) fee and cost coverage to the fee
6 and cost coverage proposed by the Postal Service. Table 1 below compares the
7 proposed fees and cost coverages.

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9 **Table 1 – Proposed Bulk Parcel Return Service Comparisons**

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2. Background of BPRS

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¹ USPS-T-39, page 15.

1 The Postal Service responded to the need for an effective and economical
2 return service by proposing Bulk Parcel Return Service in Docket No. MC97-4.
3 This special service provides high volume Standard Mail (A) parcel mailers with a
4 standardized and cost-effective method of retrieving refused or otherwise
5 undeliverable-as-addressed parcels. This special service was expanded in
6 Docket No. MC99-4 to allow opened and resealed parcels to be returned using
7 BPRS in certain circumstances.

8

9 **3. Description of BPRS**

10 BPRS parcels must originally be mailed as Standard Mail (A) bulk parcels
11 (which, by definition, weigh less than one pound) and must be machinable.
12 Each parcel must bear a BPRS endorsement and a return address in the delivery
13 area of the post office issuing the BPRS permit. Parcels that have been opened
14 and resealed by the recipient must either bear a BPRS return label or be re-
15 entered into the mailstream with the original, properly endorsed label. The
16 returns are either picked up in bulk from a designated postal facility or delivered
17 in bulk to the mailer.

18 To qualify for this special service, a mailer must demonstrate receipt of at
19 least 10,000 returned Standard Mail (A) parcels in the previous twelve months or
20 demonstrate the high likelihood of receiving a minimum of 10,000 returned
21 Standard Mail (A) parcels in the coming twelve months. Additionally, a permit

² Tr. 23/10643.

1 must be obtained and return postage must be guaranteed from a centralized
2 advance deposit account.

3

4 **4. Systemwide Cost Coverage Comparison**

5 On page 7 of his testimony, witness Buc states that my proposed cost
6 coverage for BPRS is "too high" and "should be 132.9 percent, which is the
7 coverage applied to Standard A Regular mail." (Tr. 23/10649) He bases this
8 judgement primarily on pricing criteria summary comparisons of BPRS to
9 outgoing Standard Mail (A). I believe a more detailed consideration of the nature
10 of BPRS demonstrates that these comparisons are invalid. I have addressed this
11 consideration in the following section.

12 My proposed cost coverage of 146 percent is not too high and reflects a
13 variety of factors, including value as discussed below and in my direct testimony.
14 When designing the fee my major consideration under the particular
15 circumstances relevant to this service was developing a fee with a cost coverage
16 close to the systemwide average, also for reasons discussed in my direct
17 testimony.³

18 In this proceeding, the proposed systemwide average cost coverage is
19 168 percent, or 22 percent higher than my proposed BPRS cost coverage. I also
20 believe that the Docket No. MC99-4 extension of BPRS to opened and resealed
21 parcels could justify a higher cost coverage than the one recommended in
22 Docket No. MC97-4. A higher cost coverage therefore could be justified for a
23 special service of this nature in general, and in particular a higher cost coverage

1 could be justified for this specific special service when considering why the
2 service was initially established.

3

4 **5. Standard Mail (A) Cost Coverage Comparison**

5 In his testimony on page 7, lines 5-6, witness Buc states, "The cost
6 coverage should be 132.9 percent, which is the coverage applied to Standard A
7 Regular mail." Tr. 23/10649. He attempts throughout his testimony to
8 demonstrate a close relationship between Standard Mail (A) and BPRS for
9 pricing purposes. But it is important to remember that aside from the fact that
10 BPRS is defined as a special service for the return of Standard Mail (A) parcels,
11 pieces categorized as BPRS are very different from typical Standard Mail (A)
12 pieces.

13 Commercial Standard Mail (A) is dominated by advertising mail that is
14 letter- or flat-shaped. In most cases, although recipients may enjoy receiving
15 advertising mail, it is unsolicited. A very small portion of Standard Mail Regular is
16 merchandise fulfillment.⁴ Unlike the majority of Standard Mail Regular, this
17 merchandise is often parcel-shaped, and was solicited by the recipient. This
18 merchandise is much more costly to process and deliver than advertising mail.
19 Despite implementation of a surcharge on these more costly pieces following
20 Docket No. R97-1, it was expected that their revenues still would not cover their

³ USPS-T-39 at 17.

⁴ Only 1.6 percent of the Regular subclass is expected to be subject to the Residual Shape Surcharge, which is generally applicable to parcel-shaped merchandise pieces. (USPS-T-35, Workpaper 1, pages 3 and 14).

1 costs.⁵ This situation will continue, as stated in witness Moeller's testimony
2 (USPS-T-35, page 7, lines 12-14). So, despite being categorized as Standard
3 Mail (A), merchandise is shaped differently, its contents are different, its costs
4 are much higher, it is more welcomed by the recipient, and it fails to make a
5 contribution to covering the institutional costs of the Postal Service.

6 When a Standard Mail (A) parcel is returned to the mailstream as a BPRS
7 piece, it, too, is significantly different from typical Standard Mail (A). The original
8 mailer has asked to receive, and has a great interest in receiving, returned
9 merchandise and whatever else may have been included in the case of opened
10 and resealed BPRS parcels, such as customer information and payment. Again,
11 this differs from the typical advertising mail piece in that, though potentially useful
12 to the recipient, ad mail is generally unsolicited and return of ad mail is rarely, if
13 ever, requested by the original sender.

14 The notion that the cost coverage for BPRS be restrained to that of
15 Standard Mail Regular cannot be based on similarities between BPRS and
16 Standard Mail Regular. In fact, characteristics for each are quite different.
17 BPRS's physical difference is what makes it a contribution loser on its outbound
18 shipment at Standard Mail (A) rates. Moreover, if one were inclined to make this
19 comparison, it would be important to consider that if commercial Standard Mail

⁵ Even with the surcharge, it was expected that the revenue would be 7.8 cents below cost. (PRC Op., R97-1, Vol. 1, at 426-27 [¶ 5487].

1 (A) were a single subclass (rather than two – Regular and Enhanced Carrier
2 Route), it would have a cost coverage of 152 percent.⁶

3

4 **6. BPRS is a Special Service**

5 The Commission recommended the Postal Service's proposed
6 classification for BPRS and the corresponding per-piece fee in Docket No.
7 MC97-4. Specifically, the Commission clearly identifies BPRS as a special
8 service.

9 This recommendation entails the establishment of two new
10 special postal services, referred to as Bulk Parcel Return
11 Service and Shipper-Paid Forwarding. PRC Op., MC97-4,
12 at 1.
13

14 In his testimony at page 8, witness Buc recognizes that BPRS is a special
15 service.⁷ Although the pricing of both a special service and a mail class is done
16 with a review of the pricing criteria of section 3622(b) of title 39, with a few
17 exceptions, special services provide a value of service above and beyond the
18 basic mail class. Many special services are considered to be premium services.
19 In the case of BPRS, the service is a valuable one.

20 BPRS was not designed as a subclass of Standard Mail (A) or any other
21 class of mail. In fact, BPRS is a special service specifically designed to provide a
22 simple and convenient means for a relatively small number of high volume
23 Standard (A) bulk parcel shippers to obtain parcel returns.

⁶ PRC Op., R97-1, Vol. 2, Appendix G, at 1 (134.6 for Regular and 203.0 for ECR weighted by volume).

1

2 **7. Application of Pricing Criteria**

3 When considering the value of service (Criterion 2), the service's value to
4 both the mailer and the recipient must be considered. BPRS was designed
5 initially, and later enhanced, in cooperation with mailers to provide an efficient
6 and effective means for high volume Standard Mail (A) bulk parcel shippers to
7 retrieve refused or otherwise undeliverable-as-addressed parcels, and parcels
8 that were opened, resealed and redeposited in the mail by the customer.⁸

9 In his discussion at pages 7-10 of his testimony, witness Buc primarily
10 addresses the value to the mailer.⁹ He does not specifically consider the original
11 recipient of the parcel. BPRS offers the recipient of a Standard Mail (A) parcel a
12 high level of convenience. BPRS allows the original recipient to return unopened
13 or resealed Standard Mail (A) parcels by merely re-entering them into the
14 mailstream. The original recipient does not have to take the item to the post
15 office or pay return postage. This high level of convenience, I believe, improves
16 the chances that the original mailer will recover merchandise unwanted by the
17 recipient in an expeditious manner.

⁷ Tr. 23/10650.

⁸ It is my understanding that the enhancement to BPRS including certain opened and resealed parcels was proposed in response to a request from a BPRS mailer that wanted to make it easier for its customers to return unwanted merchandise. The fact that the business strategy of some BPRS mailers is to discourage returns (Tr. 23/10683 and 10719-21) in no way detracts from the significant value of the enhancement.

⁹ Tr. 23/10649-10652.

1 Witness Buc states that the "value of the BPRS service is much lower than
2 the value indicated by the Postal Service's proposed cost coverage."¹⁰ He
3 supports this contention by specifying BPRS's low priority for processing and use
4 of ground transportation, and its delivery restrictions. When BPRS was
5 designed, the primary consideration was to provide a service desired by
6 customers at a considerably lower price than what they were paying at that time.
7 To accomplish this, BPRS is transported using only ground transportation, and
8 the mailer and the Postal Service develop a delivery or pick-up arrangement. As
9 described in DMM Section S924.2.1, the mailer is requested to state "the desired
10 frequency and location of parcel pickup or delivery point." The definition of
11 delivery arrangements is a cooperative process between the Postal Service and
12 the mailer rather than a restriction reducing the value of the service.

13 Witness Buc relies on the requirement that BPRS labels must include a
14 class of mail endorsement of "Standard Mail (A)" that is "needed because it
15 informs postal employees [of] the processing requirements of BPRS mail."¹¹ He
16 overlooks the requirement that the parcels must also include a BPRS
17 endorsement (DMM S924.1.2) and, if using a return label, a "Bulk Parcel Return
18 Service" service legend (DMM S924.5.5). The endorsement and/or service
19 legend clearly identifies the parcel as a return under the requirements of the
20 BPRS special service rather than as Standard Mail (A) and further contributes to
21 the value of service for BPRS.

¹⁰ Tr. 23/10649.

¹¹ Tr. 23/10650.

Criterion 4 addresses the impact of rate increases on the general public, mailers and enterprises engaged in the delivery of mail matter. Witness Buc notes in his testimony that BPRS was created to remedy a "draconian increase" of 66% in the Third Class single piece 8-16 ounce range. Tr. 23/10652. He states that the "highest Third Class Single Piece rate paid was \$2.95." However, when introduced the BPRS fee was set at \$1.75, \$0.04 less than the rate of \$1.79 that was in effect prior to the "draconian increase". My proposal would provide a further decrease. The following table compares selected Third-Class Single-Piece rates for a sixteen-ounce piece to the proposed BPRS fee of \$1.65 and shows that this fee is quite reasonable.

Table 2
Comparison of Third-Class Single-Piece Rate with the Proposed BPRS Fee

<u>Date</u>	<u>Third-Class Single-Piece Rate</u>	<u>Percentage Third-Class Rate Greater Than BPRS Fee</u>
March 22, 1981	\$1.81	10%
February 3, 1991	\$1.79	8%
January 1, 1995	\$2.95	79%

The most important factor in considering Criterion 4 for my proposed BPRS fee is the fact that my proposal is for a fee decrease. There should not be any negative impact on BPRS customers, current and future, especially given the prices of the alternative services.

1 Regarding the availability of alternative means of sending and receiving
2 mail (Criterion 5) witness Buc at page 10 sees no "economically realistic
3 alternative" to BPRS.¹² There are alternatives, though. UPS and FedEx both
4 offer return services. These services are based on zones, and therefore, are not
5 directly comparable to the Postal Service's simple and easily understandable flat
6 BPRS fee (Criterion 7). As an example, a parcel weighing one-pound or less,
7 without corporate discounts or a call tag, can be returned by ground
8 transportation from zone five for \$4.40 with United Parcel Service. This is \$2.75
9 more than, or 167 percent higher than a BPRS return at the proposed fee. The
10 UPS and FedEx customers who utilize these services must find them
11 "economically realistic." Cosmetique may not believe that there are "economically
12 realistic" alternatives for their specific business model, but there are real
13 alternatives to BPRS. Furthermore, if there are fewer alternatives, Criterion 2,
14 the value of service, would suggest that the value of service to BPRS users
15 would be higher. This would not be the first time that Criterion 2 and Criterion 5
16 would suggest conflicting directions. I believe that I have appropriately balanced
17 these criteria with regard to the available alternatives.

18 When addressing Criterion 6 at page 10, witness Buc states that the
19 machinability of the parcels and customer pick-ups reduce Postal Service costs
20 and "This argues for lower rates."¹³ I agree that these features of BPRS parcels
21 and the return service itself serve to reduce the service costs, but this reduction
22 is already reflected in the costs, and therefore in the proposed fee of \$1.65. Any

¹² Tr. 23/10652.

- 1 additional consideration of these factors in the determination of the cost coverage
- 2 is unwarranted.
- 3

¹³ Tr. 23/10652.

III. BUSINESS REPLY MAIL (BRM)

1. Comparison of Postal Service Proposal with KeySpan Proposal

KeySpan Energy witness Bentley proposes alternative Business Reply Mail (BRM) fees to those fees proposed by the Postal Service. Table 3 below lists the proposed fee comparisons.

Table 3 – Proposed Business Reply Mail Fee Comparisons

<u>Description</u>	<u>USPS Proposal¹⁴</u>	<u>KeySpan Proposal¹⁵</u>	<u>Difference Between USPS and Keyspan (\$)</u>	<u>Difference Between USPS and Keyspan (%)</u>
QBRM per piece w/Quarterly Fee	\$0.03	\$0.005	\$0.025	83%
QBRM per piece w/o Quarterly Fee	\$0.06	\$0.045	\$0.015	25%
Quarterly Fee	\$850	\$3000	(\$2150)	(253%)

2. KeySpan Proposal for a High Volume QBRM Annual Fee Discriminates Against Moderate Volume QBRM Mailers

Witness Bentley's counter proposal to my QBRM high volume quarterly fee would require QBRM mailers to pay \$1,000 a month to satisfy an annual fee. Tr. 29/13986. Further, witness Bentley's proposal would attract only those mailers with a minimum annual volume of 300,000, or 165 percent greater than my proposed annual breakeven volume of 113,000. Moreover, my proposed

¹⁴ USPS-T-39, Table 4, page 21.

1 quarterly fee would afford certain mailers to opt in during quarters when they
2 would have large mailings, and, conversely, would allow these mailers to opt out
3 during non-high volume mailing quarters. Keyspan's proposal caters to only the
4 highest volume QBRM mailers and proposes a higher fee than my proposal for
5 moderately high volume QBRM mailers.

6

7 **3. Witness Bentley's Discussion of Breakeven Volume Ignores the**
8 **Variety of QBRM Customers**

9

10 Witness Bentley's discussion of breakeven volumes for potential customers
11 of high volume QBRM¹⁵ does not consider the immediate benefit to QBRM
12 mailers. If the Postal Service can offer a three-cent per piece fee in conjunction
13 with a quarterly fee, it should be up to the mailers themselves to determine what
14 is economically advantageous for their mailings. There are a variety of QBRM
15 mailers. Some, like KeySpan, have high volumes spread evenly throughout the
16 year, and others have lower annual volumes concentrated in part of the year.
17 Absent detailed information on these types of mailers, I have proposed a first
18 step in de-averaging QBRM fees. Fundamental to my classification and fee
19 proposals is the understanding that the per piece and quarterly fees are based
20 on the costs, and that there are a variety of QBRM mailers, with different volume
21 patterns. KeySpan would like to limit the high volume QBRM classification to a
22 small group of mailers with comparable mail volumes to KeySpan.

¹⁵ Tr. 29/13986.

¹⁶ Tr. 29/13990 and 13992.

1 Witness Bentley apparently did not know who proposed the Postal Service's
2 QBRM postage discount and fees. USPS/KE-T1-12. Therefore, it is not
3 surprising that he did not understand my proposal when he stated in his
4 testimony on page 20, lines 12-15, "Using the CBCIS data, the average volume
5 received by the 1300th largest recipient is less than 50,000 per year. Such
6 recipients would never pay the \$850 quarterly fee under the Postal Service's
7 proposal". Depending upon the seasonality of mail responses, a mailer receiving
8 enough pieces within a three-month time period, though perhaps receiving less
9 than 50,000 pieces per year, could very likely find the quarterly fee with the lower
10 per piece fee financially beneficial.

1 **IV. INSURANCE**

2

3 **1. Comparison of Postal Service Proposal with OCA Proposal**

4 Office of Consumer Advocate (OCA) witness Collins (OCA-T-8) proposes an
5 alternative incremental insurance fee to that fee proposed by the Postal
6 Service.¹⁷ Table 4 below compares the proposed fees.

7

8 **Table 4 – Proposed Insured Mail Incremental Fee Comparisons**

9

10				Difference	Difference
11				Between	Between
12		USPS	OCA	USPS and	USPS and
13	<u>Description</u>	<u>Proposal</u>	<u>Proposal</u>	<u>OCA (\$)</u>	<u>OCA (%)</u>
14					
15	Incremental Fee	\$1.00	\$0.95	\$0.05	5%
16	(per \$100 of value				
17	over first \$100)				
18					

19 Additionally, witness Collins has presumably proposed to increase the size
20 of the incremental value levels above \$1000.¹⁸ However, she states in her
21 testimony, "I recommend that there be no increase in the per \$100 increment fee,
22 and that there be a modification of the interval to \$250 or \$500 for insured value
23 over \$100, with a corresponding adjustment in the per increment fee."¹⁹ Since
24 witness Collins mentions both value levels above \$1,000 and \$100 in her
25 testimony in two separate places, I am assuming the OCA Trial Brief, which
26 states \$1,000, contains the correct figure.²⁰ Witness Collins has failed to define

¹⁷ Tr. 29/14199.

¹⁸ Tr. 29/14198.

¹⁹ Tr. 29/14199.

²⁰ Trial Brief of the Office of the Consumer Advocate, page 26.

1 what she means by "a corresponding adjustment in the per increment fee."²¹
2 Why propose a "corresponding adjustment" if, in witness Collins' own words, it is
3 "impossible to know what the appropriate 'corresponding' adjustment should
4 be"?²²

5 Finally, unlike what is stated in the OCA Trial Brief²³, Witness Collins does
6 not propose any change to the Postal Service proposed fees for unnumbered
7 insurance or numbered insurance for items valued at \$100 and under in her
8 testimony.²⁴

9

10 **2. Incremental Fee Development was Based on Available Cost**
11 **Information**
12

13 Witness Collins states that "there is no cost justification in Docket No.
14 R2000-1" for the incremental insurance fee.²⁵ She clarified this by stating that "at
15 least 43 of the 50 increments for insured mail have no empirical justification." Tr.
16 29/14247. This statement was further clarified in witness Collins oral cross
17 examination where she agreed that her statement concerning no empirical
18 justification in USPS/OCA-T8-10 referred to the 43 (actually 44) increments
19 above the \$600 value level up to \$5000. Tr. 29/14271.

20 I believe that the Postal Service has provided ample justification supporting
21 the increase in the incremental fee for the value levels from \$600.01 to \$5000.

²¹ Tr. 29/14222.

²² Tr. 29/14222.

²³ Trial Brief of the Office of the Consumer Advocate, page 26.

²⁴ Tr. 29/14201.

²⁵ Tr. 29/14197.

1 As described in my testimony at pages 63-64, and in my response to
2 OCA/USPS-T39-6²⁶, the development of the incremental fee involves the
3 balancing of proposed fees against known costs and the need to generate a
4 reasonable cost coverage. The known costs included the total volume variable
5 and incremental costs presented by Witness Kay. USPS-T-23, Table 1A.
6 Witness Davis provided an updated cost study addressing the average cost of
7 unnumbered insurance and the average cost of numbered insurance. USPS-T-
8 30, page 14, Table 3. Additionally, the indemnity analysis information provided at
9 OCA/USPS-T39-5 was available.²⁷

10 Knowing the average volume variable cost for the unnumbered increment
11 provided a basis for establishing a reasonable fee for that increment. Due to the
12 increase in the unnumbered volume variable cost, the fee was mitigated to limit
13 the unnumbered fee increase. With the second known cost, the volume variable
14 average cost for numbered insurance, I was able to establish a reasonable fee
15 for the base numbered insurance increment (\$100 and under) and the base level
16 fee for the remainder of the numbered increments. The incremental fee for
17 increments over \$100 was then established to produce a reasonable overall cost
18 coverage for insurance service when compared with the total volume variable
19 costs provided by witness Kay.

20 The indemnity analysis was used primarily to verify that there was a general
21 relationship between volume variable plus indemnity costs. This verification was
22 useful for the lower increments (\$100 to \$900). But as the value of the

²⁶ Tr. 14/5594.

1 increments increases above the \$900 level, the number of transactions per
2 increment decline, and there is the possibility that claims are classified in a
3 higher increment as a result of non-insurance fee and postage reimbursement.²⁸
4 But some perspective is necessary. Based on FY 1998 data the total number of
5 transactions in the increments above \$900 represent less than one percent of the
6 total insurance transactions.²⁹

7 The approach I used to establish proposed fees is appropriate, and the best
8 approach given the available cost information. In fact, this approach is similar to
9 that used by witness Collins to develop her fee proposals for the individual
10 money order services based on total costs only. Witness Collins confirmed use
11 of this approach when questioned on the cost coverage used to establish the fee
12 for APO/FPO money orders. She states "I have no information regarding the
13 specific costs of APO/FPO money orders. My proposal covers all reported costs
14 of money order service and provides an appropriate contribution to institutional
15 costs."³⁰

16

17 **3. There is No Basis for Expanding the \$100 Fee Increments**

18 Witness Collins suggests in her testimony at page 14, lines 21-22 that
19 "Perhaps the increments over \$1000 should be for every \$250 or \$500 of

²⁷ Tr. 14/5591.

²⁸ DBP/USPS-227 and 245.

²⁹ From LR-I-168, WP-13, 308,146/39,911,233, representing the sum of FY 1998 insurance transactions in increments \$1000 or greater divided by the total domestic insurance transactions.

³⁰ Tr. 29/14258.

1 insurance." ³¹ Without any supporting factual information or analysis, witness
2 Collins recommends at page 15, lines 5-7 "that there be a modification of the
3 interval to \$250 or \$500 for insured value over \$100[0], with corresponding
4 adjustment in the per increment fee."³²

5 I oppose such a change for the following reasons. First, witness Collins
6 does not provide any reason for the change. There is not even a specific
7 problem, need, or benefit identified. Second, I reviewed the increments used by
8 our competitors, specifically UPS and FedEx, and found that they also assess
9 insurance fees based on \$100 increments. For the Postal Service to introduce a
10 substantially different fee structure may be confusing to consumers. Third, I do
11 not believe it would be fair to our customers to establish larger increments. If the
12 increments were increased to \$500, a customer who required \$1050 of insurance
13 would be charged the same as a customer desiring to insure a mailpiece for
14 \$1500. Serious consideration of a proposal for changing this approach when the
15 Postal Service currently uses a long-standing, industry-standard approach would
16 require a clear, thoroughly analyzed, and well-documented rationale.

17

18 **4. The Proposed Fee for Unnumbered Insurance Should Not be**
19 **Lowered by the Full Level of the Cost Decrease**
20

21 The per-piece cost for the unnumbered insurance increment used when
22 developing the proposed fees was \$1.26. If the overall insurance special service
23 cost coverage of 138.4 percent were used to develop a proposed fee, the fee

³¹ Tr. 29/14198.

1 would have been \$1.74³³. This would have resulted in a fee increase of 104.7
2 percent.³⁴ A large increase of this magnitude was clearly unacceptable.
3 Therefore, the proposed fee was mitigated to \$1.35, a 58.8 percent increase with
4 a 104.5 percent implicit cost coverage.

5 On April 17, 2000, Witness Davis filed errata and revised the cost of the
6 unnumbered insurance increment to \$0.95. USPS-T-30, page 14, Table 3, as
7 revised April 17, 2000. Assuming no change in the proposed fee, the cost
8 coverage increases to 138.6% (LR-I-168, WP-32, page 3), or within 0.2 percent
9 of the overall cost coverage for the insurance special service. But there would
10 still be a fee increase of 58.8 percent, which I believe should be reduced. If the
11 current cost information had been available when preparing the original fee
12 proposal, I would have proposed a fee lower than \$1.35, but not so low as to
13 maintain the 104.5 percent implicit cost coverage.

14 One factor I would consider is the impact on the unnumbered bulk insurance
15 fee. Despite the increase in bulk insurance cost savings, I was forced by the
16 initial costs to propose an increase in this fee from \$0.45 to \$0.60. Reducing the
17 unnumbered fee to \$1.20 would eliminate this increase.

18

³² Tr. 29/14199.

³³ $138.4\% \times \$1.26 = \1.74

³⁴ $((\$1.74 - \$0.85) / \$0.85) \times 100 = 104.7\%$

5. The Purported Fee Anomaly Between Insurance and Registered Mail Above the \$700 Level is Justifiable and Only Affects a Small Number of Transactions

Witness Collins discusses the supposed fee anomaly that occurs in proposed insurance fee levels. At proposed fees, the purported anomaly occurs for insurance increments above \$700.01.³⁵ In these increments, insurance is more expensive than registered mail. But, when considering these purported anomalies, it should be recognized that only one percent of the insured mail transactions is affected. It must also be noted that registered mail and insured mail are two different products, with different mailing requirements, different indemnity costs, and different transportation and handling measures. Simply stated, the combined handling and indemnity costs should be considered. For lower value levels, the lower handling costs of insurance outweighs the greater chance of indemnity. Registered mail has greater handling costs, but lower exposure to loss. At higher value levels, the benefits of the high security system outweigh the costs. Customers should be allowed to choose between these services based on their needs and the appropriate fees.

³⁵ Tr. 29/14197.

V. MONEY ORDERS

1. Comparison of Postal Service Proposal with OCA Proposal

Office of Consumer Advocate (OCA) witness Collins proposes alternative money order fees to those fees proposed by the Postal Service. Table 5 below lists the proposed fee comparisons.

Table 5 – Proposed Money Order Fee Comparisons

<u>Description</u>	<u>USPS Proposal³⁶</u>	<u>OCA Proposal³⁷</u>	<u>Difference Between USPS and OCA (\$)</u>	<u>Difference Between USPS and OCA (%)</u>
APO/FPO	\$0.35	\$0.25	\$0.10	29%
Domestic	\$0.90	\$0.75	\$0.15	17%
Inquiry Fee	\$3.00	\$2.75	\$0.25	8%

2. The OCA Proposal Does Not Compare the Actual Fees

On page 7 of her testimony, witness Collins presents examples of fees charged by a limited number of local Postal Service money order competitors. It is interesting that witness Collins' table does not provide a comparison of the actual fees charged when taking into consideration the higher maximum dollar amount of a Postal Service money order. Further, when questioned on the stand, witness Collins admitted that she did not consider any additional charges or lesser services related to non-postal money orders. Tr. 29/14272. In order to present an accurate fee comparison, as many characteristics of a Postal Service

³⁶ USPS-T-39, Table 13, page 73.

1 money order must be matched with the competition's offering. Hence, a
2 comprehensive fee comparison of Postal Service money orders with competitors'
3 money orders would compare the fees for money orders valued up to \$700. Only
4 when questioned does witness Collins provide complete fee comparisons for a
5 few of the establishments listed in the table on page 7 of her testimony. Tr.
6 29/14226-7 and 14253. Table 6 below provides the comparisons between the
7 Postal Service's proposed domestic money order fee (for \$700 value) with the
8 equivalent fee charged by the competitors listed in witness Collins' table and her
9 Exhibit OCA-8D. Tr. 29/14191, 14208-13.

10
11 **Table 6 – Comparison of USPS Proposed Money Order Fees to Witness**
12 **Collins' Competitors' Money Order Fees (\$700 value)**
13

18 <u>Competitor</u>	17 <u>Competitor's Fee</u>	16 <u>Difference Between Competitor's and USPS Proposed Fee (\$)</u>	15 <u>Difference Between Competitor's and USPS Proposed Fee (%)</u>
20 13 th St Variety	20 \$0.56	20 (\$0.34)	20 (38%)
21 Paradise Liquors	21 \$0.58	21 (\$0.32)	21 (36%)
22 S R Liquors	22 \$0.98	22 \$0.08	22 9%
23 Penn Mar Liquors	23 \$1.18	23 \$0.28	23 31%
24 American Cash Express	24 \$1.18	24 \$0.28	24 31%
25 Western Union	25 \$1.18	25 \$0.28	25 31%
26 CVS Pharmacy	26 \$1.58	26 \$0.68	26 76%
27 Seven-Eleven	27 \$2.00	27 \$1.10	27 122%

28
29

37 Tr. 29/14203.

3. The OCA Proposal Does Not Consider the Total Cost to the Consumer

Witness Collins apparently feels that what a few local competitors charge for a typical value money orders is comparable to the fee of a domestic postal money order. She admitted on the stand that she did not consider service charges for non-postal money orders when developing her money order fee proposal. Tr. 29/14273-4. I feel it is important that the total cost to the money order consumer be identified.

Telephone calls were placed to the establishments in Table 6 above to find out what sort of additional charges may apply to their money orders. Two issues were considered. First, fundamental to the service of a money order is the ability to cash that money order. A postal money order can be cashed at any post office free-of-charge. The second issue was whether there was a time limit with respect to cashing a money order and if there was any applicable fee depending upon how soon the money order was cashed. A postal money order can be cashed free-of-charge for an indefinite period of time.

Following are the results of the telephone calls placed on July 14, 2000, to the establishments to determine if there were any charges for cashing money orders. 13th Street Variety will cash only money orders purchased from their store, and then charges two percent of the face value. Paradise Liquors and CVS will not cash money orders, including those purchased from their store. Additionally, CVS will not allow money orders issued from their store to be used for purchases at CVS stores. (On the stand, witness Collins assumed that she

1 would be able to cash a CVS money order at CVS. Tr. 29/14275.) Penn Mar
2 Liquors will only cash money orders purchased from their store, and then
3 charges one-and-one-half percent of the face value. American Cash Express will
4 only cash money orders purchased at their establishment, and then charges five
5 percent of the face value. Western Union will cash Travelers, Global Express,
6 and American Express money orders. The charge to cash one of these money
7 orders varies by the face value and the age of the money order. For a \$300
8 money order less than 10 days old, the cashing fee is \$5.25. For all money
9 orders over 10 days old, the cashing fee is six percent of the face value (e.g.,
10 \$18 for a \$300 money order). Seven-Eleven will only cash their own money
11 orders free-of-charge up to \$70. Again, a postal money order may be cashed
12 free-of-charge at any post office.

13 With respect to any service charges assessed if a money order was not
14 cashed within a certain time limit, witness Collins' Exhibit OCA-8D³⁸ provides
15 some excellent examples of these fees charged by postal competitors. On
16 pages 2 of 6 and 4 of 6, the service charge sections both state:

17 "If this Money Order is not used or cashed (presented
18 for payment) within three (3) years of the purchase
19 date, there will be a non-refundable service charge
20 where permitted by law. The service charge will be
21 deducted from the amount shown on the Money Order.
22 The service charge is twenty-five (25) cents per month
23 from the date of purchase, but not more than twenty-
24 one (21) dollars."
25

26 Tr. 29/14209 and Tr. 29/14211

³⁸ Tr. 29/14207-13.

1 On page 6 of 6, the service charge section states:

2 "The purchaser, each endorser and their successors
3 agree that if this money order is not used or cashed
4 (presented for payment) within one (1) year of its
5 purchase date, there shall be a non-refundable service
6 charge to the extent permitted by law. The service
7 charge is two dollars and fifty cents (\$2.50) per month
8 from the date of purchase or such lesser amount as
9 may be permitted by applicable law. Notwithstanding
10 the foregoing, for all money orders governed by
11 Maryland law, upon the expiration of one (1) year from
12 its date of purchase the service charges shall be \$5.00
13 (for money orders with a face amount of less than
14 \$50.00) or \$10.00 (for money orders with a face value
15 of \$50.00 or more), per annum, charged retroactively
16 and until escheated. Upon presentment after 1 year (as
17 permitted by law), this money order will be stopped to
18 assess the charge.
19

20 Tr. 29/14213

21 Again, the postal money order may be cashed at any time without any
22 payment penalty or service charge.
23

24 4. Comparison of Postal Service Money Order Fees with Bank Fees

25 Since banks are such prominent financial institutions, I find it curious that
26 witness Collins, in her response to USPS/OCA-T8-15, admitted she had "no
27 knowledge as to whether banks sell money orders" and "did not inquire."³⁹ Our
28 office placed telephone calls to three large banks in the Washington, D.C.
29 metropolitan area on July 17, 2000, to inquire about the fees charged for money
30 orders and cashier's/official checks, which are financial instruments similar in
31 nature to money orders. SunTrust Bank charges \$5.00 for a money order with

1 no maximum limit and \$8.00 for a cashier's/official check. First Virginia Bank
2 charges \$5.00 for a money order with a \$250 limit and \$5.00 for a
3 cashier's/official check. First Union Bank charges \$5.00 for a \$700 money order
4 for a person with a First Union account and \$10.00 for a \$700 money order for a
5 person without a First Union account. A First Union cashier's/official check is
6 \$8.00 for an account holder and \$10.00 for a non-account holder. Additionally,
7 all three banks reported they would only cash money orders for people with
8 accounts at their banks.

9

10 **5. Cashing Convenience of Postal Service Money Orders**

11 In addition to the fact that the Postal Service does not charge a fee to cash
12 its own money orders, it is important to note the convenience factor in cashing a
13 postal money order. The ability to cash a money order at any United States post
14 office makes postal money orders undoubtedly the easiest money orders to use.
15 Also, subject to funds availability, rural carriers can also cash postal money
16 orders, which broadens, and thereby enhances, the cashing convenience.
17 Finally, although witness Collins did not investigate cashing fees for non-postal
18 money orders, she did concede that "a Postal Service money order ought to be
19 the easiest to cash." Tr. 29/14272.

20

21

³⁹ Tr. 29/14252.

1 6. Purchasing Convenience of Postal Service Money Orders

2 In addition to the fact that postal money orders can be purchased at any post
3 office or from any rural carrier, payment alternatives for postal money orders also
4 offer great convenience, compared to other money orders. The Postal Service
5 accepts, in addition to cash, traveler's checks and automated teller machine
6 (ATM) payments (where available) for the purchase of money orders. Telephone
7 calls placed on July 25, 2000, to four of the establishments in Table 6 revealed
8 the limitations of methods for purchasing money orders when compared to the
9 Postal Service's accepted methods. Specifically, Paradise Liquors, 13th Street
10 Variety, CVS, and Western Union accept only cash as payment for money
11 orders.

12

13 7. Money Order Customers

14 Witness Collins, on page 5, lines 3-8 of her testimony, infers that I concur, in
15 part, that money orders are used by customers with modest incomes because
16 postal money orders are popular in rural areas. Tr. 29/14189. In response to
17 USPS/OCA-T8-26, however, witness Collins more accurately reflects my feelings
18 towards money order customers, and actually contradicts the statement in her
19 testimony. Witness Collins states that customers on rural routes near her
20 residence "most certainly could not be described as having 'a modest income'."
21 Tr. 29/14267. Although I have stated that money orders are used by individuals
22 with modest incomes, the point I was trying to make in my testimony was that
23 there is a growing number of money order customers who are not low income

1 individuals. These new customers often use money orders for Internet
 2 purchases.

3

4 **8. Money Order Fee History**

5 My proposal for a 90-cent domestic money order in this proceeding would, if
 6 recommended and approved, be the exact same postal money order fee for a
 7 money order over \$50 effective July 18, 1976. Without even considering
 8 inflation, I am requesting the same fee that was in place 24 years ago. Further,
 9 the 90-cent proposed fee is lower than the majority of the domestic money order
 10 fees from 1978 to 1988. Table 7 presents the past domestic money order fees
 11 that were equal to or higher than the fee I am proposing in this proceeding.

12

13 **TABLE 7 – Past Postal Money Order Fees Equal to**
 14 **or Greater Than the R2000-1 Proposed Fee**

16	17	18	19	20
<u>Date</u>	<u>Dollar Value</u>	<u>Fee</u>	<u>Percentage Old Fee Greater Than Proposed Fee</u>	
21 July 18, 1976	\$50.01 to \$300.00	\$0.90	0%	
22 May 29, 1978	\$50.01 to \$400.00	\$1.10	22%	
23 March 22, 1981	\$25.01 to \$50.00	\$1.10	22%	
24 March 22, 1981	\$50.01 to \$500.00	\$1.55	72%	
25 February 17, 1985	\$25.01 to \$700.00	\$1.00	11%	
26 April 3, 1988	\$35.01 to \$700.00	\$1.00	11%	

27

28 **9. Money Order Inquiry Fee**

29 Witness Collins fails to provide any justification for not increasing the
 30 money order inquiry fee. Further, she does not seem to be concerned that postal

1 competitors that she specifically pointed out at Exhibit 8D, page 2 of 6, (Tr.
2 29/14209) charge 191 percent over the current USPS inquiry fee and 167
3 percent over the proposed USPS inquiry fee (\$8.00 versus \$2.75 and \$3.00). In
4 my direct testimony, I addressed the pricing criteria fully for money orders and
5 have provided sufficient justification for the proposed modest increase.

6

7 **10. APO/FPO Money Order Fee**

8 As with the proposed money order inquiry fee, witness Collins fails to
9 provide any justification for not increasing the APO/FPO money order fee, and
10 especially does not provide any justification for lowering the current fee. Military
11 personnel do not receive lower fee money orders from any of our competitors.
12 The current APO/FPO fee is 63 percent lower than the current money order fee,
13 and the proposed APO/FPO fee is 61 percent lower than the proposed money
14 order fee. Under witness Collins' proposal, military personnel would pay 67
15 percent less than all other money order customers when compared to her
16 proposed money order fee. Postal money orders should actually be of an
17 extremely high value to domestically-stationed military personnel away from their
18 own financial institutions due to the abundance of post offices throughout the
19 United States and its territories.

20

21 **11. Proposed Money Order Cost Coverage Should Not be Lowered**

22 During her oral testimony witness Collins made the following two statements
23 concerning postal money orders: "I personally think that the Postal Service

1 money order is a very good instrument for the people to use" (Tr. 29/14272) and
 2 "I think it's a superior product" (Tr. 29/14276). I could not agree with her more.
 3 When considering all the advantages of postal money orders over all other
 4 money orders (such as the purchasing and cashing conveniences, cashing costs
 5 and replacement costs detailed earlier), I believe that postal money orders, at my
 6 proposed fees, offer the best value available.

7 So why then should the proposed cost coverage be lowered? Witness
 8 Collins herself praises postal money orders, stating that they are a superior
 9 product. I cannot fathom why a cost coverage of 142 percent (26 percentage
 10 points below the proposed systemwide average) for a superior special service
 11 should be lowered.⁴⁰

12

13 **12. Calculation of Money Order Cost Coverage to Comport with**
 14 **Commission's Calculation in Docket No. R97-1**
 15

16 In Docket No. R97-1, the Commission calculated their recommend money
 17 order cost coverage without the float. Using my proposed fees, the cost
 18 coverage using volume variable costs with no float is 163 percent.⁴¹ Under
 19 witness Collins' proposal, the cost coverage using volume variable costs with no
 20 float is 138 percent⁴². However, using incremental costs, it is crucial to note that
 21 my proposed fee revenue less float revenue results in a cost coverage of 115

⁴⁰ This includes float. The cost coverage is even lower if considering only fee revenue. USPS-T-39 at 73.

⁴¹ $((\$305,488 - \$54,821)/\$153,995) * 100 = 163\%$. From LR-I-168, WP-16 and USPS-T-23, Table 1A.

⁴² $((\$276,849 - \$56,893)/\$159,605) * 100 = 138\%$. From Tr. 29/14203.

1 percent.⁴³ On the other hand, witness Collins' comparable cost coverage is only
2 98 percent.⁴⁴ Even without considering the other points I have made, witness
3 Collins' proposal to lower the money order fees produces inadequate revenues,
4 and therefore should be rejected.

⁴³ $((\$305,488 - \$54,821)/\$217,464) * 100 = 115\%$. From LR-I-168, WP-16 and USPS-T-23, Table 1A.

⁴⁴ $((\$276,849 - \$56,893)/\$224,831) * 100 = 98\%$. From Tr. 29/14203.

VI. DMCS ERRATA AND SUGGESTED IMPROVEMENTS

In my direct testimony I proposed a general rewrite of the special services section of the Domestic Mail Classification Schedule (DMCS). USPS-T-39 at 165-66. Since then I have identified several errata. I also wish to suggest several minor DMCS changes that would improve several special services.

The errata are as follows:

Attachment A

Page 42: Change title of chapter 5 from "Package Services Mail" to "Package Services".

Page 57, Section [912.22], last line:
Add "new names." after "addition of".

Page 60, Section 931.[3]21:
Change "Section 221.24" to "Sections 221.24 or 222.34", and change "category" to "categories", to indicate the separate requirements for Qualified business reply mail letters and cards.

Page 66, Section 936.51:
Insert "Parcel Post subclass of Package Services," after "First-Class Mail," and,
Change "221 and 223" to "221, 223, and 521.2A", to conform this section with the proposed change in section 936.11, and my proposal in USPS-T-39, at page 138, lines 8 to 11.

1 Page 79, Section 948.21:

2 Change "the Parcel Post, Bound Printed Matter, Special and
3 Library subclasses of Standard Mail" to "Package Services mail",
4 for consistency with other changes.

5
6 Change ". Delivery Confirmation is also available for " to ", as well
7 as", for simplicity.

8
9 **Attachment B**

10
11 Page 59, Fee Schedule 933:

12 Add footnote 1 after \$4.00 fee for "Checking meter in or out of
13 service", indicating that: "Fee does not apply to Secured Postage
14 meters." This change reflects my proposal on page 80, lines 15 to
15 16, and page 84, lines 10 to 13 of USPS-T-39.

16
17 Corrected pages are attached in Exhibit A.
18

1 I also believe that the following small changes should be made to the DMCS.

2

3 **Attachment A**

4

5 Section 932.51: Change "calendar year" to "12-month period" in second and
6 third lines.

7 Section 935.51: Change "calendar year" to "12-month period" in second and
8 third lines.

9 Section 936.52: Change "year" to "12-month period" in first line.

10

11

12 These changes reflect the Postal Service's practice of charging annual

13 fees over different 12-month periods for different mailers, rather than limiting the

14 period to a calendar year.

15

16 Section 943.244: Delete "unless instructions on the piece mailed indicate that
17 it not be forwarded or returned"

18

19

20 The purpose of this change is to avoid circumstances in which insured

21 mail would be discarded because a customer had written on the piece that it

22 should not be forwarded or returned. The Postal Service has existing processes

23 and ancillary endorsements for forwarding and return, and does not want to

24 create an expectation that customers can bypass these by random written

25 instructions.

26

27 Section 931.[3]22: Replace entire section with "To qualify for the advance
28 deposit account per piece fees, the customer must maintain
29 sufficient money in an advance deposit account to cover
30 postage and fees due for returned business reply mail."

31

32 This change reflects the Postal Service's ability to deduct all kinds of

33 postage and fees from a single account, so that a separate account for business

- 1 reply mail only is no longer necessary. The change follows from my proposals to
- 2 charge an annual accounting fee for each service (BPRS, BRM, merchandise
- 3 return, and shipper paid forwarding) that uses an account, rather than just BRM.
- 4 See USPS-T-39 at pages 18, 69, and 140.

5
6
7

1 **VII. CONCLUSION**

2

3 In conclusion, BPRS provides an effective and economically attractive
4 special service for bulk parcel returns. This service was designed in cooperation
5 with mailers to address their specific needs for a low cost and responsive
6 service. BPRS provides a high value of service to the original mailer, and as
7 importantly, it provides a highly convenient method for bulk parcel recipients to
8 return unwanted merchandise.

9 The proposed BPRS fee is actually less than the fee in effect prior to the
10 increase in Third-Class Single Piece rate resulting from R94-1. Therefore, I
11 believe that the proposed reduction of the fee for BPRS to \$1.65, and the related
12 cost coverage of 146%, is fair and reasonable and consistent with Section
13 3622(b) of Title 39 of the United States Code.

14 My proposed QBRM quarterly fee and high volume per piece fee would be
15 beneficial to many QBRM mailers. The basic thrust of my proposal is to provide
16 lower fees for as many mailers as possible, noting that even moderate volume
17 mailers could take advantage of lower fees during seasonal mailings by opting in
18 and out of the quarterly classification.

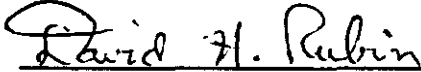
19 My proposed incremental insurance fee was developed based on cost
20 information and there is no basis for expanding the \$100 value level fee
21 increments. The \$100 increments are an industry standard and have been
22 useful to many insurance mailers throughout the years. Expanding the value

1 levels would also be detrimental to those customers insuring at values towards
2 the low end of the increment.

3 Postal Service money orders are a high value special service that provide
4 many benefits over the competition. Particularly when considering the growing
5 new customer base of money order customers, the proposed cost coverage
6 should not be lowered.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.



David H. Rubin

475 L'Enfant Plaza West, S.W.
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August 18, 2000